

with an alternate processing location and quarterly tests the ability to recover all systems in the event of a facility disaster. A copy of NECA's Disaster Recovery Plan is enclosed.

Section 9.4 Staffing Requirements

The following persons located in NECA Headquarters, Whippany, New Jersey are proposed to administer the NANP billing and collection. Should personnel changes be necessary during the contract period, people with comparable experience will be assigned.

Oversight of the NANP billing and collection administration functions will be the responsibility of NECA's Director, Universal Service Fund & Support Programs, who has more than 16 years' experience in the telecommunications industry, holding positions of increasing responsibility in the areas of product management, rate development and average schedule settlement methods. This Director has managed both industry and interdepartmental NECA teams to modify major aspects of NECA administrative functions associated with interstate access rate development, cost analysis, and interstate access charge pooling. For more than three years, this Director has had administrative responsibility for directing all universal service programs managed by NECA. These programs include the federal Universal Service Fund, Lifeline Assistance programs, the interstate TRS Fund, and the Vermont, Kansas and Arizona universal service funds.

NECA will assign a Fund Administrator to manage ongoing operations, who will act as first point of contact with the NANC and FCC and other interested parties. This NECA Manager or Fund Administrator will have a minimum of five years' management experience, along with experience in some

or all of the following relevant disciplines: interstate access settlements, telecommunications cost analysis, regulatory management, telephone cost separations.

Additionally, a NECA Associate Manager will be assigned to perform desk operations and data analysis. This individual would work under the direct supervision of the fund administrator and will have experience in the areas of data base management, data analysis, customer service, and billing and collection procedures, and experience working with NECA treasury operations.

Experienced managers will be assigned to administer NANP billing and collection treasury operations including bank reconciliation functions, cash management and fund disbursements. These managers have extensive experience in cash management operations such as cash forecasting, money transfer, bank balance reporting and general accounting. Undistributed funds will be invested by a manager with more than ten years' experience in this discipline, in accordance with NECA Investment Guidelines (See Attachment II). NECA treasury operations are, in turn, managed by a Director with more than thirteen years of experience in cash management, investments, billing and collection and accounts receivable.

Billing and collection oversight will be the responsibility of a supervisor experienced with major accounts receivable systems and general accounting.

Section 9.5 Organizational Structure

As described in Section 9.4 above, NECA staff located in the Whippany, New Jersey location will be responsible for NANP billing and collection functions. At the direction of NANC or FCC, on-site

verification of contributor data could be conducted by NECA's regional offices located in Whippany, New Jersey; Alpharetta, Georgia; Chicago, Illinois; Denver, Colorado; St. Louis, Missouri; Omaha, Nebraska; and Concord, California.

Section 4. Compliance Matrix

SECTION 1.0 - General Information	REQUIREMENT (see Note 1)	PROPOSAL
1.1 Introduction	Information on ability and flexibility to expand the scope of responsibilities from NANPA to include CO Administration	Billing and Collection Agent process and activities will remain the same when the NANPA expands to include CO Administration. A revised contributor formula authorized by the NANC and FCC would revise the contributor payments to the Agent.
1.2 Neutrality	1. Non-government 2. Independent third party <ul style="list-style-type: none"> • not a telecommunications service provider • not owned or affiliated 3. Disclosure of any affiliations or associations with telecom	NECA is a private corporation , not an arm of the US Government or an affiliate of any telecommunications service provider as defined in the Telecommunications Act of 1996. NECA is a not-for-profit association with no outstanding long term debt. It is not a telecommunications service provider and not owned or affiliated with a telecommunication provider. Ongoing relationships with telecommunications service providers do exist at NECA for the purposes of administering the interstate access charge system, the federal TRS and universal service programs.
1.3 Term of Administration	5 years (may be renewed)	Proposal is for 5 years.
1.4 Valid Period for Respondent Proposals	Valid for a period of 12 months	Pricing is valid until April 3, 1998.
1.5 Impacts of Regulatory Activities and Industry	Accommodates changes due to new industry or regulatory directives, procedures or guidelines	NECA can accommodate change.

1.6 Performance Review Process	<ol style="list-style-type: none">1. Develop and describe internal documented performance monitoring mechanism and make available to the industry through NANC2. Investigate and report on identified problems within 10 business days3. Take corrective action	NECA's processes and procedures for performing billing and collection functions have be included in this Proposal.
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Note 1: The information contained in the Requirements column is provided here to assist the respondent in completing the matrix. Respondents should refer to the Requirements Document to ensure they have addressed all of the requirements.

SECTION 1.0 - General Information	REQUIREMENT	PROPOSAL
1.8 Preparation and Submission of Proposals	<ol style="list-style-type: none">1. Responsible for preparation costs2. Addressed all requirements3. Proposal in proper format4. Signed by a duly authorized representative5. Marked "Proposal-NANPA," identifies name of the respondent organization6. Received by NANC by 12:00 Noon ET on April 3, 19977. One paper copy and diskette marked "Master Copy" to NANC5. No facsimile6. English7. Forty paper copies in binders and two diskettes in IBM PC, Microsoft Windows, Microsoft Word 6.0/Excel 4.08. Times New Roman font size 12, printed on one side, double-spaced, 8-1/2 x 11 3-hole punched paper.9. Each section of proposal begins on new page and is tabbed separately10. Provide additional copies as requested by the FCC11. Advise NANC Chair in writing if proposal should no longer be considered12. In event of respondent error in quoted price, time or calculations, the quoted price, time and calculations shall prevail	NECA's Proposal has been prepared consistent with the Requirements Document.
1.9.1 Evaluation Process	<ol style="list-style-type: none">1. Respond to questions concerning proposal in writing2. Participate in individual meeting with evaluators	NECA will respond in writing or in person to questions regarding this Proposal.

SECTION 1.0 - General Information	REQUIREMENT	PROPOSAL
1.11 Confidentiality and Use of Information	1. Use Requirements Document solely for the purposes of responding 2. No publicity or news release about Requirements Document or selection of a respondent without prior written approval of NANC	NECA agrees with the requirements for Confidentiality and Use of Information.
1.12 Inquiries	All questions and concerns forwarded in writing to Chair of NANC, copy Designated Federal Official	NECA agrees with the requirements for Inquiries

SECTION 2.0 - Proposal Outline and Respondent Information	REQUIREMENT	PROPOSAL
2.0 Proposal Outline and Respondent Information	<p>Cover Page - Includes contact name, address, phone number, fax number, date, and signature of authorized representative</p> <p>Proposal Overview</p> <ol style="list-style-type: none"> 1. Summary of key features and deviations and exceptions 2. Use of subcontractors 3. Certification that respondent and any subcontractor comply with the provisions of the Requirements Document in its submission 4. Identify willingness to accept a recommendation that will assign to them the administration of either Part 1 or Part 2 <p>Respondent Information</p> <p>Description of Respondent's Business</p> <p>Respondent Financial Information</p> <p>Additional Information</p> <p>List of Company Officers</p> <p>Performance Bond</p> <p>Legal Proceedings</p> <p>References</p> <p>Proposal Details</p> <p>Compliance Matrix</p>	NECA agrees with the guidelines for the Proposal Outline. These guidelines have been followed in the preparation of this Proposal.
2.1 Respondent Confidential Information	Recommended respondent submits proposal with confidential information deleted	A copy of this Proposal is provided with Confidential/Proprietary information of Section 10-Pricing deleted.

SECTION 6.0 - Dispute Resolution	REQUIREMENT	PROPOSAL
6.0 Dispute Resolution	1. Provide information as required to the appropriate responsible group and participant as required in resolution of an issue	NECA will provide available administrative information to allow resolution of disputes.

SECTION 7.0 - Enterprise Services	REQUIREMENT	PROPOSAL
7.1 Operating Principles	Follow operating principles which apply to provision of enterprise services	NECA agrees.
7.2 Required Enterprise Service	1. Provide rating and routing input to RDBS/BRIDS for code applicants that request service 2. Proposed fee to be charged to the applicant requesting service	Does not apply.
7.4 Auditing	Audit of enterprise service activities and report on annual basis to the NANC	The audit requirements for the Billing and Collection Agency call for an independent third party audit at the end of the first year and every two years thereafter. The audit will address the Agency's financial and operational performance compliance with agreed-upon NANC and FCC requirements. The estimated fees associated with the audits are included in Section 10 - Pricing and will be recovered as part of the Billing and Collection Agent fund collection.

SECTION 8.0 - Billing and Collection Agency Functional Requirements	REQUIREMENT	PROPOSAL
8.1 Introduction	Demonstrate compliance with stated sections	Compliance is indicated.
8.2 General Responsibilities	<ol style="list-style-type: none">1. Collect payments for numbering administration functions2. Assess carrier payments3. Base non-U.S. payments on nation's population4. List of U.S. telecommunication carriers5. All U.S. carriers contribute to cost recovery	NECA agrees with these responsibilities and routinely performs these same functions for other funds as described in Proposal response to Section 8.4.

<p>8.3 Qualities and Attributes</p>	<ol style="list-style-type: none">1. Knowledge of relevant legislation2. Knowledge of relevant FCC rules related to number administration, fund collection and reporting requirements3. Knowledge of generally accepted accounting standards and laws4. Knowledge and understanding of cost recovery mechanisms	<p>NECA possesses strong qualities, attributes and relevant knowledge pertaining to billing and collection activities. This is evident from the NECA management of the FCC's Interstate Access Charge Plan, including development, maintenance and defense of interstate access tariffs on behalf of more than 1200 local exchange carriers; development and implementation of the Interstate Access Revenue Pools and Settlement Operations for these same exchange carriers; the administration of the FCC's Universal Service Fund since its inception in 1986; administration of the FCC's Lifeline Assistance program, also since 1986; planning, implementation, and administration of the nationwide Interstate Telecommunications Relay Services Fund since 1993; planning, implementation and administration of the Vermont Universal Service Fund since its inception in October 1994, and planning implementation and administration of the Kansas and Arizona USF's since their inceptions in early 1997.</p>
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SECTION 8.0 - Billing and Collection Agency Functional Requirements	REQUIREMENT	PROPOSAL
8.4 Billing and Collection Functional Requirements	<ol style="list-style-type: none"> 1. Design reporting worksheet 2. Submit worksheet to NANC and FCC for approval 3. Understand and follow public notice requirements in disseminating worksheet 4. Develop procedures for monitoring industry compliance 5. Compute payment for each contributing entity 6. Develop corporate and international contacts to facilitate cost recovery 7. Propose procedures addressing reporting and payment failures 8. Develop procedure for computing, billing, and collecting each entity's payment to fund 9. Design procedures to ensure validity of reported data 10. Establish procedure for collecting and verifying installment payments 11. Develop procedure regarding variances in fund collection and disbursements 12. Implement Billing and Collection function within 90 days of selection 13. Collect payment for NANPA function and Billing and Collection Agency function 14. Distribute funds to the new NANPA on a monthly basis 15. File annual report with the FCC and national government authorities as appropriate on collections and disbursements 16. Maintain records to ensure operational integrity 17. Obtain audit 	<p>NECA is experienced in developing standardized Reporting Worksheets. For example, NECA developed a similar worksheet with the FCC which has been in active use since 1993 for interstate TRS. On an ongoing basis and using an approved formula, NECA will compute and bill each contributing entity their appropriate amount. The FCC in its Order could establish a contribution factor formula based on its own estimate of total gross telecommunications service revenues net of payments to other carriers, and introduce the Worksheet described above into the record. The Worksheet would be completed by service providers and submitted to NECA along with their initial payment based on the carrier's revenue and the ordered contribution factor. This data would be used by NECA to verify and track receipt of future payments. A similar process is recommended for receipt of payments from countries based on population. This reported data would be used by NECA to verify and track receipt of future payments. NECA will distribute funds to the new NANPA on a monthly basis and file an annual report with the FCC and national government authorities as appropriate on collections and disbursements. NECA will maintain records to ensure operational integrity and obtain an audit.</p>

SECTION 8.0 - Billing and Collection Agency Functional Requirements	REQUIREMENT	PROPOSAL
8.5.2 U.S. Payments	<ol style="list-style-type: none">1. Verify information on complete worksheet2. Calculate payment factor, calculate each individual carrier required payment and submit the bill3. Examine and verify data received from carriers4. Ensure all eligible entities are identified, billed and contribute to the fund5. Keep carrier data confidential and do not use data except for purposes of calculating, collecting and verifying payment	NECA's Proposal in Section 8 describes how these requirements will be met.

SECTION 9.0 - Miscellaneous	REQUIREMENT	PROPOSAL
9.1 Hours of Operation	<ol style="list-style-type: none">1. 5 days a week, 8 hours a day.2. Mechanism for 24 hour accessibility3. Respond within 1 business day	NECA concurs with these requirements as described in Section 9.1.
9.2 Telecommunications Requirements	<ol style="list-style-type: none">1. Description of voice communications and computer facilities2. Each staff have individual phone with message capability3. Access to rating and routing databases	NECA concurs with these requirements as described in Section 9.2.
9.3 Security Requirements	<ol style="list-style-type: none">1. Proper security measures2. Secured work area with limited access3. Secured record retention4. Secured computer systems for proprietary information5. Disaster recovery plans and procedures	Data provided to, used or developed by NECA in its administration of NANP billing and collection will be provided only to the NANC and FCC, or the selected independent auditor. Only authorized NECA staff will have access to these data.
9.4 Staffing Requirements	<ol style="list-style-type: none">1. Permanent, full time2. Sufficient level for quick responses3. Physical location4. Ability to travel5. Staffing profiles and levels	Permanent full time employees in NECA's Whippany, NJ Headquarters will be assigned to administer the NANP billing and collection functions.
9.5 Organizational Structure	<ol style="list-style-type: none">1. Operational structure to meet NANPA and CO Code Administration responsibilities2. Centralized, regional, what combination3. Structure and associated number of people	Administration of NANP billing and collections will be centralized in Whippany, NJ. See description of organization in Section 9.4.

SECTION 10.0 - Pricing	REQUIREMENT	PROPOSAL
Pricing	5 year proposal separated into: NANPA functions CO Code functions Billing and Collection Agency function	Proposal and pricing is for Billing and Collection Agent responsibilities only.
	Total Solution (if applicable)	Does not apply.
	American dollars, exclusive of taxes, custom duties, tariffs	Pricing is in U.S. dollars in accordance with the Requirements Document.
	Preferred or most favored customer pricing, including decreases during term	Does not apply.

Section 6. Appendix

Attachment I: Arthur Anderson LLP independent auditor report of Consolidated Statements of
Financial Position

Attachment II: Excerpts from "Guidelines for Temporary Investments of NECA"

Attachment III: NECA Non-disclosure Agreement

Attachment IV: Distribution Agreement between NECA and Member Companies

Enclosures: NATIONAL EXCHANGE CARRIER ASSOCIATION, INC. - *1997 Company*
Officers and Board of Directors

NECA's Disaster Recovery Plan

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

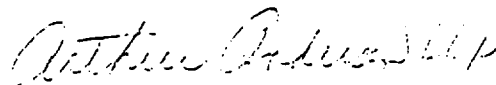
To the Board of Directors of the

National Exchange Carrier Association, Inc.:

We have audited the accompanying consolidated statements of financial position of the National Exchange Carrier Association, Inc. (a Delaware corporation) and subsidiary (the "Company") as of December 31, 1996 and 1995, and the related consolidated statements of income and reinvested earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Exchange Carrier Association, Inc. and subsidiary as of December 31, 1996 and 1995 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.



ARTHUR ANDERSEN LLP

Roseland, New Jersey
February 28, 1997

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 1996 AND 1995

(in thousands)

<u>ASSETS</u>	<u>1996</u>	<u>1995</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)-		
Unrestricted cash	\$9,746	\$21,698
Telecommunications relay services	7,365	15,046
Vermont universal service	1,952	1,658
	<u>19,063</u>	<u>38,402</u>
Short-term investments (Note 2)	2,876	-
Receivable for contract services (Note 1)	13,126	13,067
Receivable from interexchange carriers, net (Notes 1 and 2)	94,942	77,746
Other	1,586	761
	<u>131,593</u>	<u>129,976</u>
FIXED ASSETS (Note 2):		
Furniture and equipment	13,768	14,239
Leasehold improvements and software	4,527	4,366
Less- Accumulated depreciation and amortization	(14,560)	(14,734)
	<u>3,735</u>	<u>3,871</u>
OTHER ASSETS (Note 3)	<u>6,547</u>	<u>5,298</u>
Total assets	<u>\$141,875</u>	<u>\$139,145</u>
 <u>LIABILITIES AND REINVESTED EARNINGS</u>		
CURRENT LIABILITIES:		
Due to banks (Note 4)	\$6,641	\$5,452
Payable to pool members, net	89,050	81,392
Payable for contract services	18,729	18,135
Accounts payable and accrued expenses	9,482	9,052
Payable for telecommunications relay services (Notes 1 and 2)	7,218	14,874
Payable for Vermont universal service	1,918	1,645
Total current liabilities	<u>133,038</u>	<u>130,550</u>
COMMITMENTS (Note 6)		
REINVESTED EARNINGS	<u>8,837</u>	<u>8,595</u>
Total liabilities and reinvested earnings	<u>\$141,875</u>	<u>\$139,145</u>

The accompanying notes to consolidated financial statements
are an integral part of these statements.

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME AND REINVESTED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

(in thousands)

	<u>1996</u>	<u>1995</u>
REVENUE:		
Pool reimbursement	\$37,465	\$39,515
Contract services (Note 1)	3,550	2,958
Interest income, net of interest expense of \$181 and \$189, respectively	2,230	2,560
Telecommunications relay services	322	276
Other	312	185
Total revenue	<u>43,879</u>	<u>45,494</u>
EXPENSES:		
Personnel and related expenses	31,013	33,854
General and administrative	10,336	9,457
Depreciation and amortization	1,967	1,748
Total operating expenses	<u>43,316</u>	<u>45,059</u>
EARNINGS BEFORE INCOME TAXES	563	435
PROVISION FOR INCOME TAXES (Note 5)	<u>321</u>	<u>310</u>
Net income	242	125
REINVESTED EARNINGS, beginning of year	<u>8,595</u>	<u>8,470</u>
REINVESTED EARNINGS, end of year	<u>\$8,837</u>	<u>\$8,595</u>

The accompanying notes to consolidated financial statements
are an integral part of these statements.

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

(in thousands)

	<u>1996</u>	<u>1995</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for settlement and contract services	\$1,397,392	\$1,306,058
Cash paid for settlement and contract services	(1,375,104)	(1,271,558)
Cash paid to suppliers and employees	(39,671)	(45,568)
Interest received	3,509	4,865
Interest paid	(109)	(10)
Income tax paid	(1,101)	(514)
Net cash used for operating activities	<u>(15,084)</u>	<u>(6,727)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(1,406)	(1,422)
Proceeds from sale of fixed assets	27	13
Purchases of short-term investments	(2,876)	-
Net cash used for investing activities	<u>(4,255)</u>	<u>(1,409)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
Decrease in cash and cash equivalents	(19,339)	(8,136)
CASH AND CASH EQUIVALENTS, beginning of year	<u>38,402</u>	<u>46,538</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$19,063</u>	<u>\$38,402</u>

	<u>1996</u>	<u>1995</u>
RECONCILIATION OF NET CASH USED FOR OPERATING ACTIVITIES:		
Net income	<u>\$242</u>	<u>\$125</u>
Adjustments to reconcile net income to net cash used for operating activities-		
Depreciation and amortization	1,967	1,748
Benefit for deferred income taxes	(176)	(64)
Loss on sale of fixed assets	139	75
Changes in operating assets and liabilities-		
(Increase) decrease in receivable for contract services	(59)	316
Increase in receivable from interexchange carriers	(17,196)	(8,571)
Increase in other current assets	(825)	(10)
Increase in other assets	(1,664)	(466)
Increase in payable for contract services	594	4,195
Increase in accounts payable and accrued expenses	430	698
Increase (decrease) in payable to pool members	7,658	(3,643)
Decrease in payable for telecommunications relay services	(7,656)	(2,668)
Increase in payable for Vermont universal service	273	1,291
Increase in due to banks	<u>1,189</u>	<u>247</u>
Net cash used for operating activities	<u>(\$15,084)</u>	<u>(\$6,727)</u>

The accompanying notes to consolidated financial statements
are an integral part of these statements.

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1996 AND 1995

(in thousands)

(1) GENERAL:

The National Exchange Carrier Association, Inc. (NECA) was formed at the direction of the Federal Communications Commission (FCC) to develop, file, and support interstate access tariffs, to administer interstate access revenue pools and FCC-mandated support funds, and to distribute the revenues to local telephone exchange companies. NECA was incorporated on October 3, 1983. Membership in NECA is mandated by the FCC and includes each local exchange carrier. No shares of stock are issued.

NECA administers two interstate access revenue pools, common line and traffic sensitive, which involve monthly distribution of revenues among members. At the conclusion of NECA's monthly pooling process, each participant either owes monies to the pool or is due monies from the pool based on estimated results submitted. The cash flows involving these amounts take place in the following month, with the receipt of monies due the pool preceding the disbursement to members who are recipients. The estimated results submitted may be retroactively adjusted for 24 months. NECA recovers its expenses in accordance with FCC direction by deducting such amounts from settlement receipts prior to distribution. Interstate access pool results are targeted to earn the FCC allowed rate of return. Underearnings may not be recovered in future periods and overearnings together with any interest thereon, may be subject to refund. In 1995, estimated amounts were collected from member companies for estimated pool refunds for the 1993-1994 monitoring period.

Effective February 8, 1996, the Telecommunications Act of 1996 (the Act) was signed into law. The Act requires the FCC to implement new rules which will result in significant changes within the telecommunications industry, including changes in the way the Universal Service Fund is funded. At this time, it is not determinable as to the impact these rule changes will have on NECA's operations.

Effective October 1, 1994, NECA began administration of support programs for the Vermont Public Service Board. NECA collects revenues from all telecommunications providers offering services in the State of Vermont for which payments are made to Vermont state agencies in support of telephone relay services, telephone lifeline programs, and enhanced emergency 911 services. Effective January 1, 1997, NECA began administration of similar programs for the Arizona Corporation Commission and the Kansas Corporation Commission.

Effective July 26, 1993, NECA began administering a shared funding mechanism to recover costs caused by interstate telecommunications relay services (TRS) for individuals with hearing or speech disabilities. TRS funds collected from all common carriers providing interstate service are distributed monthly to qualified TRS service providers.

Effective April 1, 1989, NECA began directly billing qualifying interexchange carriers for Universal Service and Lifeline Assistance for distribution to eligible recipients.

Effective February 9, 1987, Independent NECA Services, Inc. (INS) was incorporated as a wholly-owned subsidiary of NECA. INS provides interstate billing and collection administrative services for its participating exchange carriers on behalf of certain interexchange carriers. Such contract services are rendered at negotiated prices.

(2) ACCOUNTING POLICIES:

Use of Estimates-

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation-

The consolidated financial statements include the accounts of NECA and its wholly-owned subsidiary INS. Intercompany transactions and balances have been eliminated in consolidation.

TRS Receivables/Payables-

Included in receivable from interexchange carriers, net is a net TRS receivable of \$563 which consists of the TRS receivable balance of \$1,711, net of the fund balance of \$1,148. In 1995 there was a net TRS fund balance of \$11,198 which was included in payable for telecommunications relay services. This change resulted from unanticipated growth in reported demand quantities associated with interstate toll free minutes.

On December 17, 1996, the FCC directed NECA to suspend TRS payments for unprojected toll free minutes for a five month period. This suspension will allow sufficient additional funds to accumulate from future contributions to prevent any shortfall in the TRS fund.

Cash and Cash Equivalents-

For purposes of the consolidated financial statements, NECA considers all highly liquid securities, purchased with an original maturity of three months or less, to be cash equivalents.

Short-Term Investments-

For purposes of the consolidated financial statements, NECA considers all securities purchased with an original maturity of greater than three months but less than one year to be short-term investments.

Fixed Assets-

Fixed assets are carried at cost. Depreciation of furniture and equipment is calculated on a straight-line basis over the estimated useful lives of those assets (five years). Amortization of leasehold improvements is calculated on a straight-line basis over the remaining period of the respective leases or the estimated useful lives of the improvements, whichever is less. Amortization of software is calculated on a straight-line basis over the estimated useful lives of those assets (three to five years). Maintenance and repairs are charged to operations as incurred.

Cost Allocation-

NECA Administrative costs are allocated to INS and other administrative functions in accordance with NECA's Cost Accounting Procedure Manual (CAM) filed with the FCC. Costs for personnel assigned to specific functions, such as salaries, benefits and travel, are directly charged. Common costs are accumulated in defined cost pools and allocated on a monthly basis using activity-based cost drivers as described in NECA's CAM. These costs include legal, auditing, finance, information systems, facilities and general overheads.

Prior Year Reclassifications-

Certain reclassifications to the 1995 financial statements have been made to conform to the current year presentation.

(3) OTHER ASSETS:

At December 31, this caption consists of the following-

	<u>1996</u>	<u>1995</u>
Deferred contract costs	\$5,305	\$4,137
Accumulated amortization	<u>(2,273)</u>	<u>(1,680)</u>
	3,032	2,457
Deferred tax benefit (Note 5)	1,992	1,816
Other investments (Note 8)	<u>1,523</u>	<u>1,025</u>
	<u>\$6,547</u>	<u>\$5,298</u>

Certain costs incurred in connection with the 1992 detariffed billing and collection service agreements have been capitalized and are being amortized on a straight-line basis over the period of the underlying contracts. In 1996, \$1,168 of costs were capitalized in securing certain service agreements and are being amortized on a straight-line basis over the period of the underlying contracts. Start-up costs for establishing the Vermont Universal Service Fund (1994/1995), of approximately \$31, are being amortized on a straight-line basis over 30 months beginning in January 1995.

(4) DUE TO BANKS:

The balances consist of checks which have been issued by NECA but have not yet cleared the bank. NECA has an arrangement with its banks under which, on a daily basis, it transfers funds required to pay checks as they clear.

Loans are generally made in the form of demand notes under lines of credit established as part of NECA's banking arrangements. The borrowing rate averaged 5.44% during 1996 and 6.44% during 1995. NECA has unused lines of bank credit of \$53,000 at December 31, 1996.

(5) INCOME TAXES:

Provision for income taxes consists of-

	<u>1996</u>	<u>1995</u>
Current-		
Federal	\$382	\$297
State	<u>115</u>	<u>77</u>
	497	374
Deferred	<u>(176)</u>	<u>(64)</u>
	<u>\$321</u>	<u>\$310</u>

The provision for income taxes differs from that calculated under statutory income tax rates primarily as the result of meals and entertainment expenses, a portion of which is not deductible for tax purposes. Deferred income taxes arise from temporary timing differences relating to tax and accounting basis differences and are recognized at the statutory income tax rates in effect when the tax is expected to be paid. Such differences include-

	<u>1996</u>	<u>1995</u>
Deferred tax benefit resulting from-		
Excess of financial accounting over tax depreciation	(\$31)	(\$38)
Vacation expense accrued for financial accounting		
purposes, but not currently deductible for tax purposes	(15)	13
Deferred compensation	(265)	(184)
Rent	149	145
Other	<u>(14)</u>	<u>0</u>
	<u>(\$176)</u>	<u>(\$64)</u>

(6) COMMITMENTS:

NECA leases furniture, equipment and office space in Whippany, New Jersey and in regional office locations. Obligations to make future minimum lease payments under noncancellable operating leases (without providing for escalation clauses, the effect of which is not expected to be significant) are: \$2,433 (1997); \$2,343 (1998); \$1,798 (1999); \$245 (2000); and \$199 (2001 and thereafter). Rental expense relating to premises and equipment, including payments under month-to-month leases, amounted to \$2,565 in 1996 and \$2,600 in 1995.

(7) BUSINESS RESTRUCTURING:

In 1995, \$1,188 of business restructuring charges were recorded primarily due to efforts to redesign industry relations operations and to related work force reductions. These restructuring charges were included in the consolidated statements of income as personnel and related expenses, and general and administrative expenses, and represented severance payments and relocation charges. As of December 31, 1995, \$699 had been paid and the remaining liability of \$489 was included in accounts payable and accrued expenses on the consolidated statement of financial position. All charges related to the restructuring have been paid as of December 31, 1996.